

# THE EFFECT OF OWNERSHIP STRUCTURE AND DIVIDEND POLICY IN DETERMINING COMPANY PERFORMANCE WITH INTELLECTUAL CAPITAL AS INTERVENING VARIABLE (STUDY ON GOVERNMENT BANKS LISTED ON STOCK EXCHANGES IN INDONESIA 2010 – 2015)

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ARTICLE INFO	ABSTRACT
<p><b>Article History:</b></p> <p>Received: 08 Jan 2018; Received in revised form: 11 Jan 2018; Accepted: 11 Jan 2018; Published online: 10 Feb 2018.</p> <p><b>Key words:</b></p> <p>Ownership Structure, Dividend Policy, Government Bank, Path Analysis.</p>	<p>This study intends to analyze and examine the effect of ownership structure, dividend policy on corporate financial performance with intellectual capital as intervening variable. By using panel data of four Government Banks listed on stock exchanges in Indonesia period 2010-2015, regression analysis using common effects model, fixed effect model and random effect model with chow test and hausman test as model selection test. The result of the research shows that the three independent variables (domestic stock ownership, foreign share ownership, dividend policy) either partially (t test) or simultaneously (f test) have significant effect to the financial performance of Government Banks. The effect of domestic institutions share ownership on Return on Assets is the indirect effect, otherwise the effect of foreign institutional share ownership and dividend policy on Return on Assets is the direct effect respectively.</p>

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## INTRODUCTION

Return on Assets (ROA) is a profitability ratios used to measure the effectiveness of firms in generating profits from assets used (Ang, 1997). The higher the value of Return on Assets, the better the performance of the company, and this is a good signal for investors to make an investment by buying shares of the company. Investors expect a high return, because the high Return on Assets also describes the profit after tax that is the right of the owner or shareholder is also high. Therefore, if the profit after tax are high, then there is hope for shareholders to earn high dividends, although dividend policy remains the right of managers to decide (Sudiyatno, 2010). Many factors influence the company performance. In

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this paper, among others, discussed about the role of share ownership structure, intellectual capital and dividend policy.

The objectives of the research are to find out whether there is a significant effect between the independent variable of institutional share ownership (domestic and foreign), dividend policy and intellectual capital on company performance.

## **1.1 Literature Review**

### **1.1.1 Agency Theory**

The agency problem was initially explored by Ross (1973), while the detailed theoretical exploration of agency theory was first expressed by Jensen and Meckling (1976). The main principle of the theory of Jensen and Meckling (1976) is the existence of a working relationship between the party giving authority (principal), the owner with the party who receives the authority (agent), namely manager. Bukhori and Raharja (2015) stated that the position of agent as the key holder of information and principal as receiver of information from agent can trigger the emergence of a condition known as information asymmetry, that is a condition where information obtained by the management as information provider preparer) with the principal is generally unbalanced. According to Jensen and Meckling (1976), the asymmetry between management and owners provides an opportunity for managers to apply opportunists for personal gain. This will then lead to a conflict of interest between owners and agents. This conflict will eventually lead to agency costs. The cost of this agency can be minimized in the manner proposed by Jensen and Meckling (1976) by enlarging managerial ownership to parallel ownership of the principal. Other efforts are increased share ownership by insurance companies, banks, investment companies and ownership by other institutions (institutional ownership) which participate monitor the agency (Moh'd, et al, 1998). This can happen because of the increasingly distributed share ownership, the level of supervision towards management becomes wider.

### **1.1.2 Company Performance**

High corporate performance will be a factor driving up the stock market value of the company which in turn will increase the firm's value (firm value). Company performance is related to how companies utilize the resources they have in achieving company goals. The company's performance is also related to the prospect of the company in the future (Tandelilin, 2001). For investors information on company performance can be used to see if they will keep their investment in the company or look for other alternatives. Some studies using Return on Assets as a variable of company performance (financial performance) include Al-Amarneh (2014) research in Jordan, El-Chaarani (2014) in Lebanon, Johl et al. (2015) in Malaysia, Vo and Nguyen (2014) in Vietnam, Syihabuddin (2015) in Indonesia, Arora (2012) in India, Al-Matarai et al., (2014), Mao (2015) in China, Setayesh and Momtazian (2014) in Tehran, Gugong et al ., (2014) in Nigeria, Ahangar (2011) in Iran.

### **1.1.3 Insitution Share Ownership**

According to Jensen (1986), an outside investor (institution) will be more professional in controlling the investment portfolio so that it will be faster and more accurate in

obtaining financial information, able to control the manager's opportunistic behavior related to agency cost and have more effective supervision, positive share ownership. Bjuggren who did research on institutional shareholdings in Sweden noted that institutional investors are often said to solve and minimize the manager's policy problems through their role as large and influential owners (Bjuggren, et al., 2007).

#### **1.1.4 Dividend Policy**

The dividend policy concerns the use of profits which are the rights of shareholders. Agyei an Yiadom (2011) declares that dividends are profit sharing to shareholders of the company normally stated at the Annual General Meeting and paid to the registered shareholders. Dividends or earnings allocation decisions are one of the policies of the four financial policies. Other decisions are funding, investment and working capital management. The company considers that the dividend decision is very important because it determines how much money flows to investors and how much funds are held for the company's investment. The dividend policy can also inform stakeholders about the company's performance.

Gordon and Lintner (1956) argue that the higher the dividend payout ratio, the higher the value of the firm. Investors prefer to receive dividend payouts today rather than wait for capital gains from retained earnings. This Gordon Lintner view by Modigliani-Miller (1961) was named the bird in the hand fallacy, known as bird in the hand theory. Azees and Latifat (2015) in his research on dividend policy relationships and company performance argues that the relationship between dividend payments and corporate performance has always been a phenomenal debate. Researchers have different views on whether dividends materially affect company performance. A number of theoretical models have explained the nature of the relationship between dividend payments and firm performance but there has been no consensus among researchers. Some researchers argue that dividend payout has a significant effect on company performance while others think otherwise

#### **1.1.5 Intellectual Capital**

Stewart (1997) defines Intellectual Capital (IC) as a total of a set of knowledge, information, technology, intellectual property, experience, competence and organizational learning, team communication systems, customer relationships and brands that can create company value. The IC include all employees, organizational knowledge and their ability to create value added and can create a sustainable competitive advantage. IC has been defined as an unseen set, intangibles (resources, skills and competencies) that drive organizational performance and value creation (Bontis et al., 2000).

Pulic (1998, 2004) has a view not much different in classifying intellectual capital. Intellectual capital can be defined as human capital, structural capital and capital employed (Pulic, 1998). Therefore, Pulic (1998) introduced Value Added Intellectual Coefficient (VAICTM) to measure the efficiency of intellectual capital. The VAICTM method is used in the financial statements of an enterprise to calculate the efficiency coefficients in the three types of capital. VAIC<sup>TM</sup> is an accounting tool for measuring and monitoring the performance of the company's physical capital and the performance of the company's intellectual assets represented by human capital and structural capital efficiency (Pulic, 1998, 2004). VAIC<sup>TM</sup> shows how both resources (physical capital and intellectual potential)

have been efficiently utilized by the company. The high value of VAICTM demonstrates increased efficiency in using company capital, as VAICTM is calculated from the sum of efficiency of capital employed (CEE), efficiency of human capital (HCE), and efficiency of structural capital (SCE).

## 1.2 Hypothesis

Referring to some of the above theories and previous research found, the hypothesis that is built is as follows:

- Hypothesis 1:** *Share ownership structure has significant effect on Intellectual Capital*
- Hypothesis 2:** *Dividend policy has a significant effect on Intellectual Capital*
- Hypothesis 3:** *Share ownership structure and dividend policy simultaneously have significant effect on intellectual capital*
- Hypothesis 4:** *Share ownership structure has a significant effect on Company Performance*
- Hypothesis 5:** *Dividend policy has a significant effect on Company Performance*
- Hypothesis 6:** *Share ownership structure, dividend policy and intellectual capital simultaneously have a significant effect on company performance*

## METHODOLOGY

### 2.1 Design and Types of Research

This study attempts to examine the relationship between variables of share ownership structure (domestic and foreign ownership); the dividend policy (DPR) and the Intellectual Capital (IC) -VAICTM Variables as independent variables, and the Company Performance proportioned by Return on Assets (ROA) as the dependent variable. From the results of the study, investigation and testing of the relationship of research variables and methods of analysis conducted will be found whether the independent variables affect the dependent variable so it is expected this study can contribute both practical and academic, especially on the development of financial management theory and economic theory in general.

This research can be categorized into descriptive-associative-analysis research, because in this research will be described the original facts from the data obtained and analyzed based on the existing phenomenon. This method is a research method that tries to find facts to be interpreted in the right way. Given this research is also intended to examine whether there is a relationship between independent variables with dependent variables either directly or indirectly, then this type of research can be classified to associative research. Associative research is the highest type of research compared to comparative and descriptive research which is also included in explanatory research (Sugiyono, 2004: 11).

### 2.2 Sources and Data Collection

Population is the whole object that is in a region and meet certain requirements relating to the research problem, or the whole unit or individual within the scope under study (Nanang Martono, 2010: 74). In this study the population used as a sample known as saturated samples.

The research company is a state-owned banking company listed on the Indonesia Stock Exchange for 2010 to 2015. The banking sector is selected as a research unit considering that the banking sector is one of the most crucial sectors that can contribute to development process. One of the main functions of the banking sector is to become a driving force in finance and financing that can provide support to economic activities in Indonesia. In addition, the banking sector generally has a rich environment for Intellectual Capital research and the availability of reliable data in the form of published accounts (balance sheet, income statement). The banking sector is solidly "intellectual" or knowledge-intensive and has a staff that is intellectually more homogeneous than in other sectors (Mavridis, 2004 and Kubo, I & Saka, 2002).

## RESULT OF THEE RESEARCH

### 3.1 Descriptive Analysis

**Table – 1:** *Descriptive Analysis*

	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance
KPDN	24	9.93	4.71	14.64	9.1800	3.22208	10.382
KPSA	24	19.64	17.17	36.81	28.1617	5.84927	34.214
DPR	24	35.00	.00	35.00	25.0497	7.06687	49.941
IC	24	3.67	2.75	6.42	3.9785	.80810	.653
ROA	24	2.62	.79	3.41	2.1632	.75735	.574
Valid N (listwise)	24						

**Sumber:** Data were processed for this study

Standard deviation is a statistical number indicating variability or fluctuation of the data set of observed results, the higher the standard deviation value of the observed data indicates that the data set is more fluctuating or varied. Taking into account the standard deviation value in the table above it appears that the dividend policy variable (dividend payout ratio=DPR) has the highest standard deviation value (7.06687) compared to the others. This condition indicates that DPR has the most fluctuating or more heterogeneous data than the others. In contrast, KPSA data (foreign ownership) has more homogeneous data than DPR data because it has smaller deviation standard of 5.84927, but has more heterogeneous data than KPDN, IC and ROA data which each have smaller standard deviation value.

### 3.2 Regression Analysis

Research model I and research model II respectively in the form of structure of equation as follows:

$$IC_{i,t} = \rho IC_{i,t} KPDN_{i,t} + \rho IC_{i,t} KPSA_{i,t} + \rho IC_{i,t} DPR_{i,t} + \varepsilon_{1i,t} \quad \text{..... model I}$$

$$ROA_{i,t} = \rho ROA_{i,t} KPDN_{i,t} + \rho ROA_{i,t} KPSA_{i,t} + \rho ROA_{i,t} DPR_{i,t} + \rho ROA_{i,t} IC_{i,t} + \varepsilon_{2,it} \quad \text{..... model II}$$

where:

IC = Inteelectual capital

KPDN = Domestic institutions share ownership

KPSA = Foreign institutional share ownership

DPR = Dividend policy

ROA = Company performance

Considering the research data is panel, the two models are analyzed each (through the help of software eviews) with comman effect regression model and fixed effect model with Chow test and Hausman test to choose the best model between the two regression models. Through Chow test and Hausman test, the fixed effect model was chosen for both regressions model I and II. However, the fixed effect model selected has autocorrelation problem and heterokedastisitas. Therefore, it is necessary to do further analysis by using Seemingly Uncorrelated Regression (SUR).

### (a) Model I Analysis

Analysis of Fixed Effect with weighing Cross Section SUR, obtained the following results:

**Table – 2:** *Fixed Effect Results with Cross Section Balances SUR: Model I*

**Dependent Variable:** IC?

**Method:** Pooled EGLS (Cross-section SUR)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.176928	0.136039	23.35310	0.0000
KPDN?	-0.065643	0.004954	-13.25093	0.0000
KPSA?	0.047865	0.004840	9.889853	0.0000
DPR?	0.002694	0.000651	4.138125	0.0007
Weighter Statistics				
R-squared	0.994131	Mean dependent var	92.75662	
Adjusted R-squared	0.992060	S.D. dependent var	126.0821	
S.E. of regression	1.073113	Sum squared resid	19.57672	
F-statistic	479.9614	Durbin-Watson stat	2.056669	
Prob (F-statistic)	0.000000			

**Resource:** Data were processed for this study

Taking into account table 2 the structure of regression equation obtained is as follows:

$$IC_{i,t} = -0,0656 IC_{i,t}KPDN_{i,t} + 0,0479 IC_{i,t}KPSA_{i,t} + 0,0027 IC_{i,t}DPR_{i,t} + \varepsilon_{1i,t}$$

### Hypothesis Testing

#### (1) f Test Statistics

**H<sub>0</sub>:**  $\beta_1 = \beta_2 = \dots = \beta_k = 0$  (simultaneously none of the independent variables are statistically significant effect on the dependent variable Intellectual Capital (IC))

**H<sub>1</sub>:** at least one value of  $\beta_1 \neq 0$ ;  $i = 1, 2, \dots, k$ . (there is at least one independent variable that is statistically significant effect on the dependent variable Intellectual Capital (IC))



The result of statistical simultaneous test (F test) is 0,0000 less than Alpha 10% probability so that we reject the null hypothesis and accept the alternative hypothesis that there is at least one independent variable that statistically significant effect the dependent variable Intellectual Capital (IC).

## (2) t Test Statistics

**H<sub>0</sub>:**  $\beta_i = 0$ , there is no significant effect of certain independent variables on Intellectual Capital (IC)

**H<sub>1</sub>:**  $\beta_i \neq 0$ , there is a significant effect of certain independent variables on Intellectual Capital (IC)

The result of statistic test t shows that the probability of the three independent variables is smaller than alpha 10%. This shows that the three KPDN, KPSA and DPR variables significantly effect the Intellectual Capital (IC) variable. In other words, with 90% confidence level, it can be concluded that statistically KPDN, KPSA, and DPR variables significantly affect IC.

## (b) Model II Analysis

**Table – 3:** *Fixed Effect Results with Cross Section Balances SUR: Model II*

Dependent Variable: ROA?				
Method: Pooled EGLS (Cross-section SUR)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.787663	0.177238	10.08621	0.0000
KPDN?	-0.058995	0.006967	-8.467352	0.0000
KPSA?	0.036396	0.007675	4.742210	0.0002
DPR?	0.008480	0.001166	7.269479	0.0000
IC?	-0.072767	0.020804	-3.497815	0.0030
Weighter Statistics				
R-squared	0.964275	Mean dependent var	51.07501	
Adjusted R-squared	0.948645	S.D. dependent var	36.71213	
S.E. of regression	1.153068	Sum squared resid	21.27304	
F-statistic	61.69452	Durbin-Watson stat	2.445340	
Prob (F-statistic)	0.000000			

**Resource:** Data were processed for this study

Taking into account table 3 the structure of regression equation obtained is as follows:

$$ROA_{i,t} = -0,0590KPDN_{i,t} + 0,0364ROA_{i,t}KPSA_{i,t} + 0,0085ROA_{i,t}DPR_{i,t} - 0,0728ROA_{i,t}IC_{i,t} + \varepsilon_{2,it}$$

## Hypothesis Testing

### (1) f-test Statistics

**H<sub>0</sub>:**  $\beta_1=\beta_2=\dots=\beta_k=0$  (simultaneously none of the independent variables that are statistically significant effect on the dependent variable Return on Assets (ROA))

$H_{-1}$ :  $\beta_{-1} \neq 0$ ;  $i=1,2,\dots,k$ . (there is at least one independent variable that is statistically significant effect on the dependent variable Return on Assets (ROA))

The result of statistical simultaneous test (F test) is 0,0000 (see table 3) smaller than Alpha 10% probability so that we reject the null hypothesis and accept the alternative hypothesis that there is at least one independent variable that statistically significant affect the dependent variable Return On Asset (ROA).

## (2) t-test Statistik

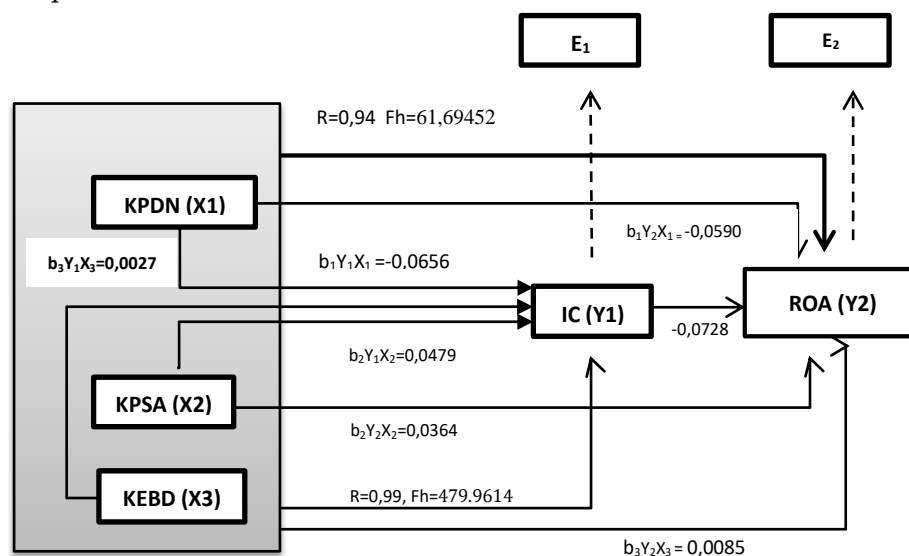
$H_0$ :  $\beta_i = 0$ , there is no significant effect of certain independent variables on the ROA variable

$H_1$ :  $\beta_i \neq 0$ , there is a significant effect of certain independent variables on ROA.

The result of statistical test t shows that the probability of all four independent variables is smaller than alpha 10%. This shows that the four KPDN, KPSA, DPR and IC variables significantly effect the Return on Assets (ROA) variable. In other words, with 90% confidence level, it was concluded that statistically KPDN, KPSA, DPR and IC variables significantly affect ROA.

## 3.3 Re-Structuring Path Analysis of Standardized Beta

Figure – 1: Empirical Research Mode



## 3.4 Interpretation of Path Analysis

In principle, path analysis is how to determine the effect of independent variables on the dependent variable either directly, indirect effect and also the total effect. For this purpose, it is necessary to pay attention to Figure 1 which is an empirical model of the analysis results obtained

- **Direct Effect**

- Direct effect of KPDN and IC variable ( $b_1 Y_1 X_1$ ) is -0,0656
- Direct effect of KPSA and IC variable ( $b_2 Y_1 X_2$ ) by 0,0479
- Direct effect of Parliament and IC variable ( $b_3 Y_1 X_3$ ) by 0,0027



- d) Direct effect of KPDN and ROA variable ( $b_1Y_2X_1$ ) is -0,0590
- e) Direct effect of KPSA and ROA variable ( $b_2Y_2X_2$ ) by 0,0364
- f) Direct effect of DPR and ROA variable ( $b_3Y_2X_3$ ) by 0,0085
- g) Direct effect of variable IC and ROA ( $b_4Y_2Y_1$ ) of -0.0728

- **Indirect Effect**

- a) The indirect effect of domestic stock ownership (KPDN) and corporate performance (ROA) through intellectual capital (IC) ( $X_1Y_1Y_2$ ) of  $-0.0656 \times -0.0728 = 0.0048$
- b) The indirect effect of foreign share ownership (KPSA) and corporate performance (ROA) through intellectual capital (IC) ( $X_2Y_1Y_2$ ) by  $0.0479 \times -0.0728 = -0.0035$
- c) The indirect effect of dividend policy (DPR) and company performance (ROA) through intellectual capital (IC) ( $X_3Y_1Y_2$ ) equal to  $0.0027 \times -0.0728 = -0.0002$

- **Total Effect**

- a) The effect of total domestic stock ownership variable (KPDN) given to company performance (ROA) is the amount of direct and indirect effect that is  $-0.0590 + 0.0048 = -0.0542$
- b) The effect of total foreign ownership (KPSA) variable given to company performance (ROA) is the amount of direct and indirect effect that is  $0.0364 + -0.0035 = 0.0329$
- c) The effect of total dividend policy (DPR) variable given to company performance (ROA) is the amount of direct and indirect effect that is  $0.0085 + -0.0002 = 0.0083$

## DISCUSSION

From the analysis of research results found that the domestic institutions share ownership variable (KPDN) has a significant negative effect on company performance (ROA). This results support the results of research conducted by Charfeddine and Elmarzougui (2011) which concluded that institutional ownership was found to have a significant negative effect on firm performance as measured by Tobin's Q in a system of simultaneous equations. The foreign ownership (KPSA) variable has a positive and significant effect on the company's performance (ROA). This finding does not support the research of Charfeddine and Elmarzougui (2011) but supports the research of Bjuggren et al. (2007) which proves that foreign institutional share ownership positively effect the performance of the company.

The dividend policy variable (DPR) was found to have a positive and significant effect on the company's performance. This indicates that the higher the dividend payout ratio, the higher the value of the company. This finding is in line with the arguments of Gordon and Lintner (1956). In addition, these findings support the results of research from Murekefu and Ouma (2013) that dividend payout has a strong and significant effect on the profitability of the company and concluded that the dividend payout is a major factor affecting the performance of the company. However, different results are found in the work of Hashemijoo et al., (2012) which in their study has shown that there is a significant negative relationship between dividend and dividend payout on stock price changes.

Similarly, Velnampy et al. (2014) who examines dividends and financial performance issues on the Colombo Stock Exchange. Their study found that the size of the dividend policy (DPR and EPS) has no correlation with organizational performance as measured by ROE and ROA.

The intellectual capital variable has a negative and significant effect on company performance (ROA). This finding is incompatible with research by Chen et al. (2005) in Taiwan who successfully demonstrated that IC (VAIC™) positively affected the market value and financial performance of the company. Similarly, Chen et al. (2005) study that IC (VAIC™) is positively associated with firm performance

## CONCLUSION

The result of the research proves that the three independent variables: domestic ownership, foreign share ownership and dividend policy, either partially (t test) or simultaneous (f test) have significant effect to the financial performance of Government Bank. The result of the research proves that the three independent variables (domestic ownership, foreign share ownership, dividend policy) either partially (t test) or simultaneous (f test) have significant effect to the financial performance of BUMN company. Based on the result of path analysis of the influence of domestic share ownership through intellectual capital to Return on Assets is indirect influence, while the influence of foreign ownership and dividend policy through intellectual capital to Return on Assets is direct influence.

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